

**CHEROKEE  
COMMUNITY SCHOOL DISTRICT**

INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2010

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**CHEROKEE COMMUNITY SCHOOL DISTRICT**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education</b>		
<b>(Before September 2009 Election)</b>		
Laura Dawson	President	2011
Terri Weaver	Vice President	2009
Deb Johnson		2011
Larry Goodrich		2009
Jack Creel		2011

**(After September 2009 Election)**

Laura Dawson	President	2011
Jack Creel	Vice President	2011
Deb Johnson		2011
Larry Goodrich		2013
Terri Weaver		2011

**School Officials**

John Chalstrom	Superintendent
Joyce Lundsgaard	District Secretary/ Treasurer

# BRUCE D. FRINK

## Certified Public Accountant

### Independent Auditor's Report

#### Member:

- American Institute of Certified Public Accountants
- Iowa Society of Certified Public Accountants

#### Services:

- Individual, Partnership and Corporate Tax Preparation
- Year Round Tax Planning
- Electronic Filing
- Payroll & Sales Tax Preparation
- I.R.S. Representation
- Monthly/Quarterly Write-Up
- Data Processing Services
- Payroll Preparation
- Computerized Financial Statements
- Bank Loan Assistance

#### Plus:

- Over 30 years of Expertise and Experience
- Evenings & Saturdays Available by Appointment
- Extended Hours During Tax Season

To the Board of Education of  
Cherokee Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities and each major fund of Cherokee Community School District as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities and each major fund of Cherokee Community School District at June 30, 2010, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated February 11, 2011 on our consideration of Cherokee Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis, Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 4 through 12 and 35 through 37 are not required parts of the financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Cherokee Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the six years ended June 30, 2009 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133. Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Bruce D. Frink*

BRUCE D. FRINK  
Certified Public Accountant

February 11, 2011

# **CHEROKEE COMMUNITY SCHOOL DISTRICT**

## **Management's Discussion and Analysis**

Cherokee Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2010. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### **2010 FINANCIAL HIGHLIGHTS**

- General Fund revenues decreased from \$9,146,380 in fiscal year 2009 to \$9,101,795 in fiscal year 2010, while General Fund expenditures increased from \$9,087,713 in fiscal year 2009 to \$9,199,774 in fiscal year 2010.
- The decrease in General Fund revenues was due primarily to a midyear state aid cut. Additional federal funding did not offset the decrease in state source revenues. The District's expenditures continue to rise primarily due to increases for salaries, benefits, and curriculum purchases.
- The District continues to maintain a solvent financial position due to budget planning.

### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of Statement of Net Assets and a Statement of Activities. These provide information about the activities of Cherokee Community School District as a whole and present an overall view of the District's finances.

The fund financial statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Cherokee Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Cherokee Community School District acts solely as an agent or custodian for the benefit of those outside of the District.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

Other Supplementary Information provides detailed information about the nonmajor governmental funds as well as a multiyear comparison of revenues and expenses. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the District.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

**Figure A-1**  
**Cherokee Community School District Annual Financial Report**

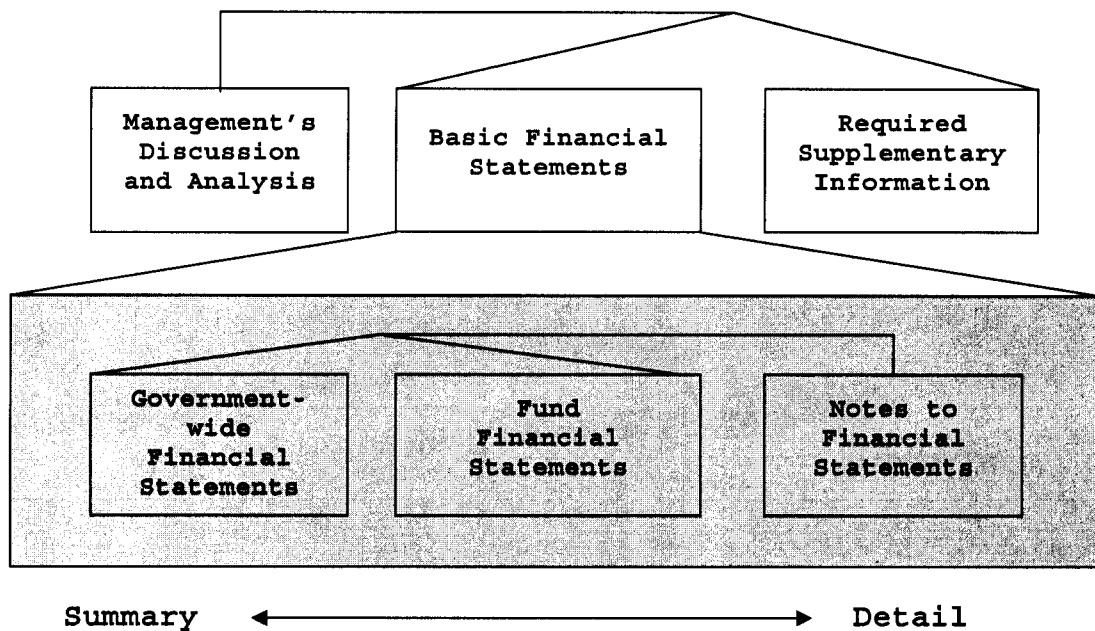


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

**Figure A-2**

**Major Features of the Government-wide and Fund Financial Statements**

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses: food services and internal service	Instances in which the district administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of revenues, expenses and changes in fund net assets</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net assets</li> <li>• Statement of changes in fiduciary net assets</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/ liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities, both short-term and long- term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid



## REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

### *Government-wide Financial Statements*

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets - the difference between the District's assets and liabilities - are one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating, respectively. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

### *Fund Financial Statements*

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. The District has elected to present all funds as "major" for clarity of presentation.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds, or to show that it is properly using certain revenues, such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's program.

The District's governmental funds include the General Fund, the Special Revenue Funds, the Debt Service Funds and the Capital Projects Fund.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Funds, one type of proprietary fund, are the same as its business-type activities but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund. The District also has an Internal Service Fund that is used to account for health insurance and related benefits.

The required financial statements for proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

3) *Fiduciary Funds*: The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust.

- Private-Purpose Trust Fund - The District accounts for outside donations for scholarships for individual students in this fund.

The District is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2010 compared to June 30, 2009.

**Figure A-3**  
**Condensed Statement of Net Assets**  
**(Expressed in Thousands)**

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2010	2009	2010	2009	2010	2009	2009-2010
Current assets	\$ 6,491	5,990	123	95	6,614	6,085	8.69%
Capital assets	8,033	8,215	23	33	8,056	8,248	-2.33%
<b>Total assets</b>	<b>14,524</b>	<b>14,205</b>	<b>146</b>	<b>128</b>	<b>14,670</b>	<b>14,333</b>	<b>2.35%</b>
Current liabilities	7,047	3,473	3	3	7,050	3,476	102.82%
Non-current liabilities	1,379	4,896	-	-	1,379	4,896	-71.83%
<b>Total liabilities</b>	<b>8,426</b>	<b>8,369</b>	<b>3</b>	<b>3</b>	<b>8,429</b>	<b>8,372</b>	<b>0.68%</b>
<b>Net Assets:</b>							
Invested in capital assets, net of related debt	3,952	3,705	23	33	3,975	3,738	6.34%
Restricted	1,690	1,346	-	-	1,690	1,346	25.56%
Unrestricted	456	785	120	92	576	877	-34.32%
<b>Total net assets</b>	<b>\$ 6,098</b>	<b>5,836</b>	<b>143</b>	<b>125</b>	<b>6,241</b>	<b>5,961</b>	<b>4.70%</b>

The District's combined net assets increased almost 5% from the prior year. The largest portion of the District's net assets is invested in capital assets.

Unrestricted net assets, the part of the net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements, decreased approximately \$329,000. This decrease in unrestricted net assets was primarily a result of early retirement benefits being recognized as liabilities in the current year although they will be entirely funded by future tax levies in the District's Management Levy.

Figure A-4 shows the changes in net assets for the year ended June 30, 2010 compared to the year ended June 30, 2009.

Figure A-4							
Changes in Net Assets							
(Expressed in Thousands)							
Governmental Activities		Business Type Activities		Total School District		Total Change	
2010	2009	2010	2009	2010	2009	2009-2010	
Revenues:							
Program revenues:							
Charges for service and sales	\$ 391	345	238	272	629	617	1.94%
Operating grants, contributions and interest and restricted interest	2,368	1,862	235	233	2,603	2,095	24.25%
General revenues:							
Property tax	3,008	2,890	-	-	3,008	2,890	4.08%
Income surtax	191	217	-	-	191	217	-11.98%
Statewide sales, service and use tax	633	620	-	-	633	620	2.10%
Unrestricted state grants	3,849	4,514	-	-	3,849	4,514	-14.73%
Unrestricted investment earnings	6	7	-	-	6	7	-14.29%
Other	57	72	-	-	57	72	-20.83%
Total revenues	10,503	10,527	473	505	10,976	11,032	-0.51%
Program expenses:							
Governmental activities:							
Instruction	6,751	6,443	-	-	6,751	6,443	4.78%
Support services	2,418	2,315	-	-	2,418	2,315	4.45%
Non-instructional programs	-	-	455	468	455	468	-2.78%
Other expenses	1,071	943	-	-	1,071	943	13.57%
Total expenses	10,240	9,701	455	468	10,695	10,169	5.17%
Change in net assets	\$ 263	826	18	37	281	863	-67.44%

Property tax and unrestricted state grants account for 55% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 86% of the total expenses.

#### Governmental Activities

Revenues for governmental activities were \$10,502,630 and expenses were \$10,239,996 for the year ended June 30, 2010.

The following table presents the total and net cost of the District's major governmental activities, instruction, support services and other expenses, for the year ended June 30, 2010 compared to the year ended June 30, 2009.

**Figure A-5**  
**Total and Net Cost of Governmental Activities**  
**(Expressed in Thousands)**

	Total Cost of Services			Net Cost of Services		
	2010	2009	Change 2009-2010	2010	2009	Change 2009-2010
Instruction	\$ 6,751	6,443	4.78%	4,626	4,626	0.00%
Support Services	2,418	2,315	4.45%	2,298	2,298	0.00%
Non-instructional programs	-	-	0.00%	-	-	0.00%
Other expenses	1,071	943	13.57%	570	570	0.00%
<b>Totals</b>	<b>\$ 10,240</b>	<b>9,701</b>	<b>5.56%</b>	<b>7,494</b>	<b>7,494</b>	<b>0.00%</b>

For the year ending June 30, 2010:

- The cost financed by users of the District's programs was \$391,288.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,703,252.
- The net cost of governmental activities was financed with \$3,007,273 in property taxes (a \$117,489 increase) and \$3,849,310 in unrestricted state grants (a \$644,928 decrease).

#### **Business-Type Activities**

Revenues for business type activities during the year ended June 30, 2010 were \$472,948 and expenses totaled \$454,758. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for food service, federal and state reimbursements and investment income.

The District uses an Internal Service Fund to account for health insurance costs and benefits. The balance of this fund is included with the General Fund on the Statement of Net Assets as that is where the vast majority of its funding comes from.

#### **FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

As previously noted, Cherokee Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balances of \$2,312,731; a three percent increase over last year's ending fund balances of \$2,244,418.

#### **Governmental Fund Highlights**

- The District has carefully monitored discretionary spending to avoid decreases in fund balances. The preservation of the General Fund balance is especially important in light of the State's decision to remove the budget guarantee and the District's projected declining enrollment, as well as two years of across the board cuts.
- The District received over \$630,000 in state school infrastructure funds during the year. These monies are used entirely for property tax relief.
- In September of 2009 the board imposed a 5 year Instructional Support Levy of 8%, funded primarily through income surtax and property tax. The previous ISP levy was 4.5%. This will substantially increase General Fund Revenue beginning in FY 2011.
- In September of 2007 the voters approved an increase in the voted Physical Plant and Equipment Levy from .50 to .85. As a result, the District receives an additional \$74,000 in PPEL funds annually.

## Proprietary Fund Highlights

The School Nutrition Fund balance increased approximately \$18,000 during the fiscal year ending June 30, 2010. The cash balance increased approximately \$33,000 due to continued coast containment strategies in food purchasing.

The District began an Internal Service Fund to account for health insurance costs and related benefits in FY 2009. The decision to partially self fund the District's health insurance continues to be advantageous in controlling health insurance increases.

## BUDGETARY HIGHLIGHTS

The District's receipts were over \$865,000 lower than budgeted receipts, a variance of 7%. This variance resulted from the District receiving less from state revenue sources than originally anticipated.

Total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

The District did not exceed the published budget in any of the four functions. It also did not exceed the General Fund unspent authorized budget.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2010, the District had invested \$8,055,947, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about the District's capital assets is presented in Note 3 to the financial statements. Depreciation expenses for the year were \$426,624.

The original cost of the District's capital assets was \$16,139,920. Governmental funds account for \$16,002,222, with the remainder of \$137,698 accounted for in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the equipment category. The District spent over \$230,000 on transportation and technology equipment.

Figure A-6 Condensed Statement of Net Assets (Expressed in Thousands)							
	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2010	2009	2010	2009	2010	2009	2009-2010
Land	\$ 714	714	-	-	714	714	0.00%
Land improvements	366	418	-	-	366	418	-12.44%
Buildings	6,387	6,590	-	-	6,387	6,590	-3.08%
Furniture and equipment	565	493	23	33	588	526	11.79%
Totals	\$ 8,032	8,215	23	33	8,055	8,248	-2.34%

### Long-term Debt

The District has outstanding debt of \$4,080,000 for the Middle School built in 1999. The bond will be fully retired in the year 2018. This is currently being paid with proceeds of the one cent statewide sales, services and use tax.

## **ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE**

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future.

- The Silo tax was passed in February 2004, and money was received by the District beginning in September 2004. This was replaced in 2008 by the statewide sales, services and use tax. These funds are used for debt reduction resulting in property tax relief for the taxpayers. The District continues to be aware of recessionary pressures that may decrease the amount of sales tax received by the District in the near future.
- The legislature must provide adequate funding to allow the District to maintain its current programs. Unfunded mandates are stretching the limits of not only the financial health of the District, but also the human resource aspect of the District. "Student Achievement and Teacher Quality Act", reduction in state aid for juvenile homes, and mandated media specialists are a few examples.
- Another issue impacting the long-term health of the District is declining enrollment. Anticipated future enrollment declines along with anticipated reductions in allowable growth and withholding of state aid to schools will place increasing pressures on the District to be able to maintain current levels of staff and programming.

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Joyce Lundsgaard, District Secretary/Treasurer, Cherokee Community School District, 600 West Bluff, Cherokee, Iowa 51012.

## **Basic Financial Statements**

## CHEROKEE COMMUNITY SCHOOL DISTRICT

## Statement of Net Assets

June 30, 2010

	Governmental Activities	Business Type Activities	Total
<b>Assets</b>			
Cash and pooled investments	\$ 2,696,425	86,495	2,782,920
Receivables:			
Property tax:			
Current year	38,621	-	38,621
Succeeding year	3,364,231	-	3,364,231
Income surtax	174,362	-	174,362
Due from other governments	147,141	-	147,141
Other receivables	70,505	1,599	72,104
Inventories	-	33,893	33,893
Capital assets, net of accumulated depreciation	8,032,479	23,468	8,055,947
<b>Total assets</b>	<b>14,523,764</b>	<b>145,455</b>	<b>14,669,219</b>
<b>Liabilities</b>			
Accounts payable	7,091	-	7,091
Accrued salary and benefits	328,376	-	328,376
Unearned revenue	-	2,785	2,785
Accrued interest payable	12,494	-	12,494
Deferred revenue:			
Succeeding year property tax	3,364,231	-	3,364,231
Federal programs	68,295	-	68,295
Long term liabilities:			
Portion due within one year:			
Early retirement	210,431	-	210,431
Bonds payable	450,000	-	450,000
Portion due after one year:			
Net OPEB liability	11,267	-	11,267
Early retirement	343,227	-	343,227
Bonds payable	3,630,000	-	3,630,000
<b>Total liabilities</b>	<b>8,425,412</b>	<b>2,785</b>	<b>8,428,197</b>
<b>Net assets</b>			
Invested in capital assets, net of related debt	3,952,479	23,468	3,975,947
Restricted for:			
Management levy	250,127	-	250,127
Physical plant and equipment levy	141,822	-	141,822
Capital projects	923,751	-	923,751
Health benefits	236,199	-	236,199
Categorical funding	138,306	-	138,306
Unrestricted	455,668	119,202	574,870
<b>Total net assets</b>	<b>\$ 6,098,352</b>	<b>142,670</b>	<b>6,241,022</b>

See notes to financial statements.



## CHEROKEE COMMUNITY SCHOOL DISTRICT

## Statement of Activities

Year ended June 30, 2010

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
<b>Functions/Programs</b>						
Governmental activities:						
Instruction	\$ 6,750,889	391,288	1,932,782	(4,426,819)	-	(4,426,819)
Support services:						
Student services	148,928	-	-	(148,928)	-	(148,928)
Instructional staff services	211,953	-	-	(211,953)	-	(211,953)
Administration services	1,036,304	-	-	(1,036,304)	-	(1,036,304)
Operation and maintenance of plant services	747,469	-	18,124	(729,345)	-	(729,345)
Transportation services	273,752	-	-	(273,752)	-	(273,752)
	2,418,406	-	18,124	(2,400,282)	-	(2,400,282)
Other expenditures:						
Interest on long-term debt	165,692	-	-	(165,692)	-	(165,692)
Long-term debt services	400	-	-	(400)	-	(400)
Facilities acquisition and construction	76,001	-	5,313	(70,688)	-	(70,688)
AEA flowthrough	411,845	-	411,845	-	-	-
Depreciation (unallocated)*	416,763	-	-	(416,763)	-	(416,763)
	1,070,701	-	417,158	(653,543)	-	(653,543)
Total governmental activities	10,239,996	391,288	2,368,064	(7,480,644)	-	(7,480,644)

CHEROKEE COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2010

	Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities
				Business Type Activities
				Total
Business type activities:				
Non-instructional programs:				
Nutrition services	454,758	237,769	235,179	18,190
Total	<u>\$ 10,694,754</u>	<u>629,057</u>	<u>2,603,243</u>	<u>18,190</u>
				<u>(7,462,454)</u>
General Revenues:				
Property tax levied for:				
General purposes				2,453,553
Management fund				299,947
Capital outlay				253,773
Income surtax				191,215
Statewide sales, services and use tax				632,814
Unrestricted state grants				3,849,310
Unrestricted investment earnings				5,739
Other				56,927
Total general revenues				<u>7,743,278</u>
Change in net assets				18,190
Net assets beginning of year				124,480
Net assets end of year				<u>142,670</u>
				<u>6,241,022</u>

\* This amount excludes the depreciation that is included in the direct expense of the various programs.

See notes to financial statements.

CHEROKEE COMMUNITY SCHOOL DISTRICT

Exhibit C

Balance Sheet  
Governmental Funds

June 30, 2010

Assets

Cash and pooled investments						
Receivables:						
Property tax:						
Current year						
Succeeding year						
Income surtax						
Due from other governments						
Other receivables						
<b>Total assets</b>						
	\$ 1,138,458	68,811	246,265	138,657	868,035	2,460,226
	31,594	-	3,862	3,165	-	38,621
	2,897,130	-	200,000	267,101	-	3,364,231
	174,362	-	-	-	-	174,362
	91,425	-	-	-	55,716	147,141
	70,505	-	-	-	-	70,505
	<u>\$ 4,403,474</u>	<u>68,811</u>	<u>450,127</u>	<u>408,923</u>	<u>923,751</u>	<u>6,255,086</u>

Liabilities and Fund Balances

Liabilities:						
Accounts payable	\$ 7,091	-	-	-	-	7,091
Accrued salary and benefits	328,376	-	-	-	-	328,376
Deferred revenue:						
Succeeding year property tax	2,897,130	-	200,000	267,101	-	3,364,231
Income surtax	174,362	-	-	-	-	174,362
Federal programs	68,295	-	-	-	-	68,295
Total liabilities	<u>3,475,254</u>	<u>-</u>	<u>200,000</u>	<u>267,101</u>	<u>-</u>	<u>3,942,355</u>
Fund balances:						
Reserved for:						
Reserved for categorical funding	138,306	-	-	-	-	138,306
Unreserved, reported in:						
Capital projects	-	-	-	-	923,751	923,751
Special revenue funds	-	68,811	250,127	141,822	-	460,760
General fund, designated for special purposes	500,654	-	-	-	-	500,654
General fund, undesignated	289,260	-	-	-	-	289,260
Total fund balances	<u>928,220</u>	<u>68,811</u>	<u>250,127</u>	<u>141,822</u>	<u>923,751</u>	<u>2,312,731</u>
<b>Total liabilities and fund balances</b>	<u>\$ 4,403,474</u>	<u>68,811</u>	<u>450,127</u>	<u>408,923</u>	<u>923,751</u>	<u>6,255,086</u>

See notes to financial statements.

## CHEROKEE COMMUNITY SCHOOL DISTRICT

Reconciliation of the Balance Sheet - Governmental Funds  
to the Statement of Net Assets

June 30, 2010

Total fund balances of governmental funds (Exhibit C)	\$ 2,312,731
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**Amounts reported for governmental activities in the Statement of Net Assets are different because:**

Income surtax receivable at June 30, 2010 is not recognized as income until received in the governmental funds, however it is shown as a receivable in the Statement of Net Assets.	174,362
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Internal Service fund assets that are to be included with governmental funds.	236,199
---	---------

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	8,032,479
--	-----------

Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(12,494)
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Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.

Net OPEB liability	\$ (11,267)	
Early retirement payable	(553,658)	
Bonds payable	<u>(4,080,000)</u>	<u>(4,644,925)</u>

Net assets of governmental activities (Exhibit A)	<u>\$ 6,098,352</u>
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**CHEROKEE COMMUNITY SCHOOL DISTRICT**

Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Fund Types

Year ended June 30, 2010

	General	Student Activity	Management and Equipment Levy	Physical Plant Levy	Capital Projects	Debt Service	Total
<b>Revenues:</b>							
Local sources:							
Local tax	\$ 2,644,768	-	299,947	253,773	632,814	-	3,831,302
Tuition	391,288	-	-	-	-	-	391,288
Other	101,332	190,865	16,454	869	5,313	-	314,833
State sources	5,117,522	-	-	-	-	-	5,117,522
Federal sources	846,885	-	-	-	-	-	846,885
Total revenues	9,101,795	190,865	316,401	254,642	638,127	-	10,501,830
<b>Expenditures:</b>							
Instruction	6,358,639	187,022	184,242	-	-	-	6,729,903
<b>Support services:</b>							
Student services	148,928	-	-	-	-	-	148,928
Instructional staff services	211,953	-	-	-	-	-	211,953
Administration services	1,108,248	-	5,525	62	-	-	1,113,835
Operation and maintenance of plant services	698,276	-	49,193	-	-	-	747,469
Transportation services	261,885	-	11,867	118,000	-	-	391,752
	2,429,290	-	66,585	118,062	-	-	2,613,937
<b>Non-instructional programs:</b>							
Food service operations	-	-	-	-	-	-	-
<b>Other expenditures:</b>							
Long-term debt:							
Principal	-	-	-	-	-	430,000	430,000
Interest	-	-	-	-	-	167,125	167,125
Services	-	-	-	-	-	400	400
Facilities acquisition and construction	-	-	-	81,107	-	-	81,107
AEA flowthrough	411,845	-	-	-	-	-	411,845
	411,845	-	-	81,107	-	597,525	1,090,477
Total expenditures	9,199,774	187,022	250,827	199,169	-	597,525	10,434,317

CHEROKEE COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Fund Types

Year ended June 30, 2010

	General	Student Activity	Management and Equipment Levy	Physical Plant Levy	Capital Projects	Debt Service	Total
Excess (deficiency) of revenues over (under) expenditures	(97,979)	3,843	65,574	55,473	638,127	(597,525)	67,513
Other financing sources (uses):							
Sale of property	-	-	-	800	-	-	800
Operating transfers in	-	-	-	-	-	597,525	597,525
Operating transfers out	-	-	-	-	(597,525)	-	(597,525)
Total other financing sources (uses)	-	-	-	800	(597,525)	597,525	800
Net change in fund balances	(97,979)	3,843	65,574	56,273	40,602	-	68,313
Fund balances beginning of year	1,026,199	64,968	184,553	85,549	883,149	-	2,244,418
Fund balances end of year	\$ 928,220	68,811	250,127	141,822	923,751	-	2,312,731

See notes to financial statements.

## CHEROKEE COMMUNITY SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and  
Changes in Fund Balances - Governmental Funds  
to the Statement of Activities

Year ended June 30, 2010

Net change in fund balances - total governmental funds (Exhibit E) \$ 68,313

**Amounts reported for governmental activities in the Statement of  
Activities are different because:**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 234,451	
Depreciation expense	<u>(416,763)</u>	(182,312)

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

1,433

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.

430,000

Internal Service Fund transactions are not reported in the General Fund as revenues and expenditures, however the General Fund is the source of these revenues and use of the expenditures.

123,793

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:

Other postemployment benefits	(11,267)	
Early retirement	<u>(167,326)</u>	<u>(178,593)</u>

Change in net assets of governmental activities (Exhibit B) \$ 262,634

See notes to financial statements.

## CHEROKEE COMMUNITY SCHOOL DISTRICT

Statement of Net Assets  
Proprietary Funds

Year ended June 30, 2009

	Business Type	Governmental Activities
	School Nutrition	Internal Service
<b>Assets</b>		
Cash and pooled investments	\$ 86,495	236,199
Other receivables	1,599	-
Inventories	33,893	-
Capital assets, net of accumulated depreciation	23,468	-
<b>Total assets</b>	<b>145,455</b>	<b>236,199</b>
<b>Liabilities</b>		
Unearned revenue	2,785	-
<b>Total liabilities</b>	<b>2,785</b>	<b>-</b>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	23,468	-
Restricted for health benefits	-	236,199
Unrestricted	119,202	-
<b>Total net assets</b>	<b>\$ 142,670</b>	<b>236,199</b>

See notes to financial statements.



## CHEROKEE COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenses and Changes in Fund Net Assets  
Proprietary Funds

Year ended June 30, 2010

	Business Type	Governmental Activities
	School Nutrition	Internal Service
Operating revenue:		
Local sources:		
Charges for services	\$ 237,769	286,697
Operating expenses:		
Non-instructional programs:		
Food service operations:		
Salaries	150,564	-
Benefits	55,338	-
Services	5,798	-
Supplies	232,587	-
Other	610	-
Depreciation	9,861	-
	454,758	-
Internal service programs:		
Benefits	-	163,553
Total operating expenses	454,758	163,553
Operating income (loss)	(216,989)	123,144
Non-operating revenues:		
Interest on investments	109	649
State sources	4,467	-
Federal sources	230,603	-
	235,179	649
Net income	18,190	123,793
Net assets beginning of year	124,480	112,406
Net assets end of year	\$ 142,670	236,199

See notes to financial statements.

## CHEROKEE COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows  
Proprietary Fund

Year ended June 30, 2010

	Business Type	Governmental Activities
	School Nutrition	Internal Service
Cash flows from operating activities:		
Cash received from sale of services	\$ 240,967	287,367
Cash payments to employees for services	(205,902)	(163,553)
Cash payments to suppliers for goods or services	(208,419)	-
Net cash provided by (used by) operating activities	(173,354)	123,814
Cash flows from non-capital financing activities:		
State grants received	4,467	-
Federal grants received	202,124	-
Net cash provided by non-capital financing activities	206,591	-
Cash flows from investing activities:		
Interest on investments	109	649
Net increase in cash and cash equivalents	33,346	124,463
Cash and cash equivalents beginning of year	53,149	111,736
Cash and cash equivalents end of year	\$ 86,495	236,199
Reconciliation of operating income (loss) to net cash provided by (used by) operating activities:		
Operating income (loss)	\$ (216,989)	123,144
Adjustments to reconcile operating income (loss) to net cash provided by (used by) operating activities:		
Depreciation	9,861	-
Commodities used	28,479	-
Decrease in other receivables	3,550	670
Decrease in inventory	2,097	-
(Decrease) in unearned revenue	(352)	-
	\$ (173,354)	123,814

## Non-cash investing, capital and financing activities:

During the year ended June 30, 2010, the District received federal commodities valued at \$28,479.

## CHEROKEE COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets  
Fiduciary Funds

Year ended June 30, 2010

	Private Purpose Trusts
<b>Assets</b>	
Cash and pooled investments	\$ 41,113
<b>Total assets</b>	<u>41,113</u>
<b>Net Assets</b>	
Reserved for special purposes	<u>41,113</u>
<b>Total net assets</b>	<u>\$ 41,113</u>

See notes to financial statements.

## CHEROKEE COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets  
Fiduciary Funds

Year ended June 30, 2010

	<u>Private Purpose Trusts</u>
Additions:	
Local sources:	
Interest on investments	\$ 143
Contributions	<u>9,112</u>
Total additions	<u>9,255</u>
Deductions:	
Support services:	
Other	<u>10,154</u>
Total deductions	<u>10,154</u>
Change in net assets	(899)
Net assets beginning of year	<u>42,012</u>
Net assets end of year	<u>\$ 41,113</u>

See notes to financial statements.

# CHEROKEE COMMUNITY SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2010

### (1) Summary of Significant Accounting Policies

Cherokee Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. The geographic area served includes the City of Cherokee, Iowa, and agricultural territory in Cherokee County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards board.

#### A. Reporting Entity

For financial reporting purposes, Cherokee Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. Cherokee Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Cherokee County Assessor's Conference Board.

#### B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributable to the acquisition, construction or improvement of those assets.

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. The District has elected to present all funds as major funds for clarity of presentation.

The District reports the following major governmental funds:

The General Fund is the general operation fund of the District. All general tax revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Student Activity Fund is used to account for extra curricular activities conducted on behalf of the students.

The Physical Plant and Equipment Levy Fund is utilized to account for the maintenance and equipping of the District's facilities.

The Management Levy Fund is utilized for the payment of insurance, unemployment and early retirement benefits.

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District reports the following major proprietary funds:

The Enterprise, School Nutrition Fund is used to account for the food service operations of the District.

The District's Internal Service Fund is used to account for the health insurance activities of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

#### C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs and then general revenues.

The proprietary funds of the District apply all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. The principal operating revenues of the Internal Service Fund are transfers from the General Fund. Operating expenses include health insurance and other related benefits. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

#### D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2008 assessed property valuations; is for the tax accrual period July 1, 2009 through June 30, 2010 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2009.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 2,000
Buildings	10,000
Improvements other than buildings	10,000
Furniture and equipment:	
School Nutrition Fund equipment	1,000
Other furniture and equipment	1,000

Capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Salaries and Benefits Payable - Payroll and related expenditures for employees with annual contracts corresponding to the current school year, which are payable in July, have been accrued as liabilities.



Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied as well as unspent grant proceeds.

Compensated Absences - District employees accumulated a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability is deemed to be immaterial at June 30, 2010.

Long-Term Obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

#### **E. Budgeting and Budgetary Control**

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2010, expenditures did not exceed the amounts budgeted in any of the four functions. The District did not exceed the General Fund unspent authorized budget.

#### **(2) Cash and Pooled Investments**

The District's deposits at June 30, 2010 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had no investments at June 30, 2010.

### (3) Capital Assets

Capital assets activity for the year ended June 30, 2010 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 714,434	-	-	714,434
Capital assets being depreciated:				
Land Improvements	1,618,470	-	-	1,618,470
Buildings	10,535,180	5,106	-	10,540,286
Furniture and Equipment	2,899,687	229,345	-	3,129,032
Total capital assets being depreciated	15,053,337	234,451	-	15,287,788
Less accumulated depreciation for:				
Land Improvements	1,200,274	52,667	-	1,252,941
Buildings	3,944,852	208,136	-	4,152,988
Furniture and Equipment	2,407,854	155,960	-	2,563,814
Total accumulated depreciation	7,552,980	416,763	-	7,969,743
Total capital assets being depreciated, net	7,500,357	(182,312)	-	7,318,045
Governmental activities, capital assets, net	\$ 8,214,791	(182,312)	-	8,032,479
<b>Business type activities:</b>				
Furniture and equipment	\$ 137,698	-	-	137,698
Less accumulated depreciation	104,369	9,861	-	114,230
Business type activities capital assets, net	\$ 33,329	(9,861)	-	23,468
Depreciation expense was charged to the following functions:				
Governmental activities:				
Unallocated				\$ 416,763
Business Type activities:				
Food service operations				\$ 9,861

### (4) Bonds Payable

Details of the District's June 30, 2010 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Interest Rates	Principal	Interest	Total
2011	4.25%	\$ 450,000	149,925	599,925
2012	4.30	465,000	131,925	596,925
2013	4.30	480,000	115,650	595,650
2014	4.40	495,000	98,610	593,610
2015	4.50	520,000	80,790	600,790
2016	4.60	535,000	61,810	596,810
2017	4.70	560,000	42,283	602,283
2018	4.70	575,000	21,562	596,562
Total		\$4,080,000	702,555	4,782,555

**(5) Changes in Long-Term Debt**

Changes in long-term debt for the year ended June 30, 2010 are summarized as follows:

	<u>Balance Beginning Year</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance End of Year</u>
Net OPEB Liability	\$ -	11,267	-	11,267
Bonds Payable	4,510,000	-	430,000	4,080,000
Early Retirement	<u>386,332</u>	<u>281,840</u>	<u>114,514</u>	<u>553,658</u>
Total	<u>\$4,896,332</u>	<u>293,107</u>	<u>544,514</u>	<u>4,644,925</u>

**(6) Pension and Retirement Benefits**

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 4.30% of their annual salary and the District is required to contribute 6.65% of annual covered salary. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2010, 2009, and 2008 were \$387,527, \$367,535, and \$341,930 respectively, equal to the required contributions for each year.

**(7) Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$411,845 for year ended June 30, 2010 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**(8) Early Retirement**

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and employees must have completed fifteen years of continuous service to the District. Employees must complete an application which is required to be approved by the Board of Education. The early retirement incentive for each eligible employee is equal to the employee's salary calculated by using the current year regular salary schedule, less the current year base pay. Early retirement benefits paid during the year ended June 30, 2010 totaled \$114,514.

**(9) Risk Management**

Cherokee Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) **Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2010 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Capital Projects	<u>\$597,525</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(11) **Other Postemployment Benefits (OPEB)**

Plan Description - The District operates a single-employer retiree benefit plan which provides medical benefits for retirees and their spouses. There are 137 active and 21 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which result in an implicit subsidy and an OPEB liability.

Funding Policy - The contribution requirements of plan members are established and may be amended by the District. The District currently finances the retiree benefits plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation - The District's annual OPEB cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding which, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the District's annual OPEB cost for the year ended June 30, 2010, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 114,081
Interest on net OPEB Obligation	-
Adjustment to annual required contribution	-
Annual OPEB Cost	<u>114,081</u>
Contributions made	<u>(102,814)</u>
Increase in net OPEB obligation	<u>11,267</u>
Net OPEB obligation beginning of year	-
Net OPEB obligation end of year	<u>\$ 11,267</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of the year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2010.

The year ended June 30, 2010, the District contributed \$102,814 to the medical plan.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2010 are summarized as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2010	\$114,081	90.1%	\$11,267

Funded Status and Funding Progress - As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2009 through June 30, 2010, the actuarial accrued liability was \$1.141 million, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$1.141 million. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$5,956,000 and the ratio of the UAAL to covered payroll was 19.2%. As of June 30, 2010, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as Required Supplementary Information in the section following the Notes to Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2009 actuarial valuation date, the unit credit actuarial cost method was used. The actuarial assumptions includes a 5% discount rate based on the District's funding policy. The projected annual medical trend rate is 6%.

Mortality rates are from the RP2000 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial Report as of June 30, 2008 and applying the termination factors used in the IPERS Actuarial Report as of June 30, 2008.

The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

## **Required Supplementary Information**

**CHEROKEE COMMUNITY SCHOOL DISTRICT**

**Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances -  
Budget and Actual - All Governmental Funds and Proprietary Fund**

**Required Supplementary Information**

Year ended June 30, 2010

	Governmental Fund Types	Proprietary Fund Type	Total Actual	Budgeted Amounts	Final to Actual Variance
	Actual	Actual		Original      Final	
<b>Revenues:</b>					
Local sources	\$ 4,537,423	237,878	4,775,301	4,778,379	(3,078)
State sources	5,117,522	4,467	5,121,989	6,334,272	(1,212,283)
Federal sources	846,885	230,603	1,077,488	728,000	349,488
Total revenues	<u>10,501,830</u>	<u>472,948</u>	<u>10,974,778</u>	<u>11,840,651</u>	<u>(865,873)</u>
<b>Expenditures/Expenses:</b>					
Instruction	6,729,903	-	6,729,903	7,343,039	613,136
Support services	2,613,937	-	2,613,937	3,355,000	741,063
Non-instructional programs	-	454,758	454,758	593,626	138,868
Other expenditures	1,090,477	-	1,090,477	1,538,976	448,499
Total expenditures/expenses	<u>10,434,317</u>	<u>454,758</u>	<u>10,889,075</u>	<u>12,830,641</u>	<u>1,941,566</u>
Excess of revenues over (under) expenditures/expenses	67,513	18,190	85,703	(989,990)	1,075,693
Other financing sources (uses)	<u>800</u>	<u>-</u>	<u>800</u>	<u>-</u>	<u>800</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures/ expenses and other financing uses	68,313	18,190	86,503	(989,990)	1,076,493
Balance beginning of year	<u>2,244,418</u>	<u>124,480</u>	<u>2,368,898</u>	<u>2,692,735</u>	<u>(323,837)</u>
Balance end of year	<u>\$ 2,312,731</u>	<u>142,670</u>	<u>2,455,401</u>	<u>1,702,745</u>	<u>752,656</u>

See accompanying independent auditor's report.

**CHEROKEE COMMUNITY SCHOOL DISTRICT**

**Note to Required Supplementary Information - Budgetary Reporting**

**Year ended June 30, 2010**

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2010, expenditures did not exceed the amounts budgeted in any of the four functions. The District did not exceed the General Fund unspent authorized budget.



CHEROKEE COMMUNITY SCHOOL DISTRICT

Schedule of Funding Progress for the  
Retiree Health Plan  
(In Thousands)

Required Supplementary Information

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	Jul 1, 2009	\$0	\$1,141	\$1,141	0.0%	\$5,956	19.2%

See Note 11 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

## Other Supplementary Information

## CHEROKEE COMMUNITY SCHOOL DISTRICT

## Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2010

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Drama	-	1,324	1,324	-
Speech	-	3,100	3,100	-
Debate	-	2,427	2,427	-
Music	-	1,409	1,409	-
WHS Vocal Fundraising	633	3,305	1,901	2,037
WHS Band	-	4,880	4,880	-
Cross Country	12	835	847	-
WHS Cheerleaders	5,542	2,171	2,108	5,605
Weightlifting	9	1,083	192	900
Boys Basketball	-	2,521	2,521	-
Boys Basketball Fundraiser	529	1,383	1,568	344
Football	-	3,833	3,833	-
Football Fundraiser	3,265	17,151	13,868	6,548
Baseball	-	5,895	5,895	-
Baseball Fundraiser	2,453	1,840	2,499	1,794
Boys Track	-	2,107	2,107	-
Boys Tennis	-	926	926	-
Boys Golf	-	1,976	1,976	-
Wrestling	-	2,552	2,552	-
Wrestling Fundraiser	250	4,637	3,679	1,208
Girls Basketball	-	2,559	2,559	-
Girls Basketball Fundraiser	2,629	4,211	5,690	1,150
Volleyball	-	3,277	3,277	-
Volleyball Fundraiser	6,045	12,767	10,317	8,495
Girls Softball	-	2,379	2,379	-
Softball Fundraiser	648	2,641	2,555	734
Girls Track	-	2,050	2,050	-
Girls Tennis	-	1,256	1,256	-
Girls Golf	-	1,935	1,935	-
Cherokeean	13,416	6,316	11,695	8,037
National Honor Society	98	712	365	445
Drug Free Lifestyles	2,125	513	250	2,388
Art Club	565	927	626	866
Student Council	4,551	4,363	3,608	5,306
Concessions	1,373	10,732	11,870	235
FCCLA	1,275	456	308	1,423
German Club	5,347	-	112	5,235
Spanish Club	791	2,257	1,118	1,930
FFA	587	-	587	-
Culinary Arts	2,489	2,300	2,567	2,222
Special Athletes	-	393	393	-
School to Work	33	-	-	33
WHS Work Study	2,334	420	519	2,235
Class of 2010	684	-	684	-
Class of 2011	570	480	-	1,050
Class of 2012	864	480	82	1,262
Class of 2009	145	480	130	495

CHEROKEE COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2010

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Prom	567	10,082	8,927	1,722
Interest on Investments	-	-	-	-
WHS Athletics	-	11,688	11,688	-
WHS Activities - Ticket Sales	-	30,368	30,368	-
WHS Athletic Pop & Juice	705	857	618	944
WHS Safety Glasses and Padlocks	420	149	-	569
Stoneking Class	773	630	466	937
Library Club	20	-	-	20
7th/8th Student Council	1,348	1,536	1,327	1,557
5th/6th Student Council	366	-	-	366
CMS Athletics	-	4,691	4,691	-
Middle School Volleyball	286	-	-	286
CMS Band	101	669	770	-
CMS Vocal	-	255	255	-
CMS Activity Resale	955	681	1,368	268
CMS Hoops Festival	165	-	-	165
Total	<u>64,968</u>	<u>190,865</u>	<u>187,022</u>	<u>68,811</u>

See accompanying independent auditor's report.

## CHEROKEE COMMUNITY SCHOOL DISTRICT

Combining Statement of Fiduciary Net Assets -  
Private Purpose Trusts

Year ended June 30, 2010

	<u>Coop Learning</u>	<u>Interest Account</u>	<u>Thomas Account</u>	<u>Student Scholarship Fund</u>	<u>Vera Pratt Memorial</u>	<u>Totals</u>
<b>Assets</b>						
Cash and pooled investments	\$ 112	4,943	19,207	3,775	13,076	41,113
	<u>\$ 112</u>	<u>4,943</u>	<u>19,207</u>	<u>3,775</u>	<u>13,076</u>	<u>41,113</u>
<b>Net assets</b>						
Reserved for special purposes	\$ 112	4,943	19,207	3,775	13,076	41,113
	<u>\$ 112</u>	<u>4,943</u>	<u>19,207</u>	<u>3,775</u>	<u>13,076</u>	<u>41,113</u>

See accompanying independent auditor's report.

## CHEROKEE COMMUNITY SCHOOL DISTRICT

Combining Schedule of Charges of Fiduciary Assets and Liabilities -  
Private Purpose Trusts

Year ended June 30, 2010

	<u>Coop Learning</u>	<u>Interest Account</u>	<u>Thomas Account</u>	<u>Student Scholarship Fund</u>	<u>Vera Pratt Memorial</u>	<u>Total</u>
Revenues:						
Local sources:						
Interest on investments	\$ -	140	-	-	3	143
Contributions	-	-	4,550	4,200	362	9,112
	-	140	4,550	4,200	365	9,255
Expenditures:						
Instruction:						
Regular instruction:						
Other	-	-	4,554	5,400	200	10,154
	-	-	4,554	5,400	200	10,154
Excess (deficiency) of revenues over (under) expenditures	-	140	(4)	(1,200)	165	(899)
Balance beginning of year	112	4,803	19,211	4,975	12,911	42,012
Balance end of year	<u>\$ 112</u>	<u>4,943</u>	<u>19,207</u>	<u>3,775</u>	<u>13,076</u>	<u>41,113</u>

See accompanying independent auditor's report.

## CHEROKEE COMMUNITY SCHOOL DISTRICT

Schedule of Revenues by Source and Expenditures by Function  
All Governmental Funds

For the Last Seven Years

	Modified Accrual Basis						
	2010	2009	2008	2007	2006	2005	2004
<b>Revenues:</b>							
Local sources:							
Local tax							
Tuition	3,831,302	3,708,534	3,722,451	3,775,786	3,803,191	4,130,990	3,718,429
Other	391,288	320,420	294,704	430,518	412,713	391,584	541,379
State sources	314,833	355,107	414,058	425,011	430,355	463,574	382,965
Federal sources	5,117,522	5,813,944	5,603,650	5,359,416	5,199,779	4,915,157	4,744,590
	846,885	306,317	270,283	269,795	278,532	314,978	518,117
Total	<u>10,501,830</u>	<u>10,504,322</u>	<u>10,305,146</u>	<u>10,260,526</u>	<u>10,124,570</u>	<u>10,216,283</u>	<u>9,905,480</u>
<b>Expenditures:</b>							
Instruction	6,729,903	6,706,133	6,465,607	6,266,284	6,213,911	6,100,321	6,175,562
Support services:							
Student							
Instructional staff	148,928	116,916	283,762	297,875	279,333	290,956	333,180
Administration	211,953	174,892	190,845	196,262	208,404	190,824	199,325
Operation and maintenance of plant	1,113,835	1,096,043	1,065,286	1,135,445	1,039,176	983,605	973,019
Transportation	747,469	787,118	786,353	764,119	766,771	777,970	820,447
Other support services	391,752	292,430	309,272	355,558	275,838	241,682	209,665
Other expenditures:	-	-	-	-	-	-	8,380
Facilities acquisition							
Debt Service:							
Principal	81,107	193,563	159,078	146,842	143,756	217,735	423,769
Interest and service charges	430,000	415,000	380,000	365,000	350,000	330,000	315,000
AEA flowthrough	167,525	184,125	234,623	251,668	268,467	284,308	299,328
	411,845	366,161	352,720	346,427	326,372	318,596	323,297
Total	<u>10,434,317</u>	<u>10,332,381</u>	<u>10,227,546</u>	<u>10,125,480</u>	<u>9,872,028</u>	<u>9,735,997</u>	<u>10,080,972</u>

See accompanying independent auditor's report.

## CHEROKEE COMMUNITY SCHOOL DISTRICT

## Schedule of Expenditures of Federal Awards

Year ended June 30, 2009

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Expenditures</u>
Direct:			
U.S. Department of Homeland Security			
Public Assistance Grant Program	97.036	FY10	\$ 3,221
Indirect:			
U.S. Department of Agriculture:			
Iowa Department of Education:			
School Nutrition Cluster Programs:			
School Breakfast Program	10.553	FY10	33,285
Food Distribution (non-cash)	10.555	FY10	28,479
Summer Food Program for Children	10.559	FY10	9,480
National School Lunch Program	10.555	FY10	159,359
			<u>230,603</u>
U.S. Department of Education:			
Iowa Department of Education:			
Title I Grants to Local Educational Agencies	84.394	FY10	144,970
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	FY10	48,063
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	FY10	459,388
Improving Teacher Quality - States Grants	84.367	FY10	38,560
Grants for Assessments and Related Activities	84.369	FY10	6,682
Special Education - Grants to States (IDEA Part B)	84.027	FY10	
Vocational Education - Basic Grants to States	84.048	FY10	7,998
Safe and Drug-Free Schools and Communities - States Grants	84.186	FY10	5,880
Northwest Area Education Agency 4			
ARRA - Special Education - Grants to States, Recovery Act	84.391	FY10	78,454
Special Education - Grants to States (IDEA Part B)	84.027	FY10	<u>53,669</u>
Total			\$ <u>1,077,488</u>

**Basis of Presentation** - The Schedule of Expenditures of Federal Awards includes the federal grant activity of Cherokee Community School District and is presented on the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.



# BRUCE D. FRINK

## Certified Public Accountant

### Member:

- American Institute of Certified Public Accountants
- Iowa Society of Certified Public Accountants

### Services:

- Individual, Partnership and Corporate Tax Preparation
- Year Round Tax Planning
- Electronic Filing
- Payroll & Sales Tax Preparation
- I.R.S. Representation
- Monthly/Quarterly Write-Up
- Data Processing Services
- Payroll Preparation
- Computerized Financial Statements
- Bank Loan Assistance

### Plus:

- Over 30 years of Expertise and Experience
- Evenings & Saturdays Available by Appointment
- Extended Hours During Tax Season

### Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Education of the  
Cherokee Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Cherokee Community School District as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated February 11, 2011. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Cherokee Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Cherokee Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Cherokee Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A-10 and II-B-10 to be material weaknesses.

A significant deficiency is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We identified no items which we consider to be significant deficiencies.

## Compliance and Other Matters

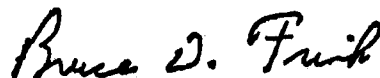
As part of obtaining reasonable assurance about whether Cherokee Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2010 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Cherokee Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the District's responses, we did not audit Cherokee Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Cherokee Community School District and other parties to whom Cherokee Community School District may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Cherokee Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



**BRUCE D. FRINK**  
Certified Public Accountant

February 11, 2011

**BRUCE D. FRINK**  
Certified Public Accountant

**Member:**

- American Institute of Certified Public Accountants
- Iowa Society of Certified Public Accountants

**Services:**

- Individual, Partnership and Corporate Tax Preparation
- Year Round Tax Planning
- Electronic Filing
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Independent Auditor's Report on Compliance with Requirements  
Applicable to Each Major Program and on Internal Control  
over Compliance in Accordance with OMB Circular A-133

To the Board of Education of  
Cherokee Community School District:

Compliance

We have audited the compliance of Cherokee Community School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2010. Cherokee Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants agreements applicable to each of its major federal programs is the responsibility of Cherokee Community School District's management. Our responsibility is to express an opinion on Cherokee Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Cherokee Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Cherokee Community School District's compliance with those requirements.

In our opinion Cherokee Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010.

Internal Control over Compliance

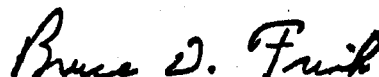
The management of Cherokee Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Cherokee Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Cherokee Community School District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a material weakness.

A deficiency in the District's internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-10 to be a material weakness.

Cherokee Community School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the District's responses, we did not audit Cherokee Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Cherokee Community School District and other parties to whom Cherokee Community School District may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



BRUCE D. FRINK  
Certified Public Accountant

February 11, 2011

CHEROKEE COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Part I: Summary of the Independent Auditor's Results:

- (a) Unqualified opinions were issued on the financial statements.
- (b) A significant deficiency and material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) A material weakness in internal control over major programs was disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed no audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
  - CFDA Number 84.394 - ARRA - State Fiscal Stabilization Fund (SFSF), Education State Grants, Recovery Act
  - School Nutrition Clustered Programs:
    - CFDA Number 10.553 - School Breakfast Program
    - CFDA Number 10.555 - National School Lunch Program
    - CFDA Number 10.559 - Summer Food Service Program for Children
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Cherokee Community School District did not qualify as a low-risk auditee.

CHEROKEE COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

**Part II: Findings Related to the Financial Statements:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**INTERNAL CONTROL DEFICIENCIES:**

II-A-10      Segregation of Duties - One important aspect of the internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Although the District does a fine job of dividing incompatible duties among existing personnel, the District Secretary still has the ability to override the system without the knowledge of any other personnel.

Recommendation - We recommend that the District continue to segregate incompatible duties as much as possible, reviewing them annually to achieve the maximum segregation possible within the existing personnel. We realize that the District Secretary has large number of required duties under the Code of Iowa which makes the situation difficult. We also realize that the District has a limited budget within which to hire additional personnel.

Response - We will continue to review and implement new procedures, when possible, to achieve the maximum segregation with existing personnel.

Conclusion - Response accepted.

II-B-10      Auditor Drafting of the Financial Statements and Related Footnote Disclosures

Comment - As in prior years, we were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. SAS 115, an auditing standard from the American Institute of Certified Public Accountants, requires auditors to communicate this situation as an internal control deficiency. Ultimately, it is management's responsibility to provide for the preparation of the District's statements and footnotes, and the responsibility of the auditor to determine the fairness of the presentation of those statements. From a practical standpoint we do both for you at the same time in connection with our audit. This is not unusual for us to do this with organizations of your size. However, based on this auditing standard, it is our responsibility to inform you that this deficiency could result in a misstatement to the financial statements that could have been prevented or detected by the District's management. As in prior years, we have instructed management to review a draft of the auditor prepared financial statements in detail for their accuracy, we have answered any questions they might have, and encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification and disclosure in your financial statements. We are satisfied that the appropriate steps have been taken to provide you with the completed financial statements.

Recommendation - It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response - We feel our review of the draft financials is adequate for us to accept this risk.

Conclusion - Response accepted.

CHEROKEE COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

CFDA Number 84.394 - ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act

Federal Award Year: 2010

US Department of Education

Passed through Iowa Department of Education

CFDA Number 10.553 - School Breakfast Program

CFDA NUMBER 10.555 - National School Lunch Program

CFDA NUMBER 10.559 - Summer Food Service Program for Children

Federal Award Year: 2010

US Department of Agriculture

Passed through Iowa Department of Education

III-A-10 Segregation of Duties - The District did not properly segregate custody, record keeping and reconciling functions for funds, including those related to Federal programs.

Recommendation - We recommend that the District continue to segregate incompatible duties as much as possible, reviewing them annually to achieve the maximum segregation possible within the existing personnel. We realize that the District Secretary has large number of required duties under the Code of Iowa which makes the situation difficult. We also realize that the District has a limited budget within which to hire additional personnel.

Response and Corrective Action Planned - We will continue to review and implement new procedures, when possible, to achieve the maximum segregation with existing personnel.

Conclusion - Response accepted.

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-10 Certified Budget - Expenditures for the year ended June 30, 2010, did not exceed the certified budget amounts in any of the four functions. The District did not exceed its unspent authorized budget for the year ended June 30, 2010.

IV-B-10 Questionable Expenditures - No expenditures we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

IV-C-10 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

IV-D-10 Business Transactions - No business transactions between the District and District officials or employees were noted.

**CHEROKEE COMMUNITY SCHOOL DISTRICT**

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

**Part IV: Other Findings Related to Required Statutory Reporting:**  
(continued):

- IV-E-10     Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.
- IV-F-10     Board Minutes - No transactions requiring Board approval which had not been approved by the Board were noted.
- IV-G-10     Certified Enrollment - No variance in the basic enrollment data certified to the Department of Education were noted.
- IV-H-10     Supplementary Weighting - No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.
- IV-I-10     Deposit and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy were noted.
- IV-J-10     Certified Annual Report - The Certified Annual Report was certified timely to the Iowa Department of Education.
- IV-K-10     Categorical Funding - No instances were noted of categorical funding being used to supplant rather than supplement other funds.
- IV-L-10     Statewide sales, services and use tax - No instances of non-compliance with the use of the statewide sales, services and use tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax. For the year ended June 30, 2010, the District's financial activity and other required information for the statewide sales, services and use tax are as follows:

Beginning balance	\$ 20,952
Statewide sales, services and use tax revenue	632,814
Expenditures/transfers out:	
Debt service for school infrastructure:	
General obligation debt	<u>597,525</u>
Ending balance	<u>\$ 56,241</u>

The statewide sales, services and use tax revenue received during the year ended June 30, 2010 is equivalent to a reduction in the following levies:

	<u>Per \$1,000 Of Taxable Valuation</u>	<u>Property Tax Dollars</u>
Debt service	\$2.89	597,525
Physical Plant and Equipment Levy	<u>0.17</u>	<u>35,289</u>
	<u>\$3.06</u>	<u>632,814</u>